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FOLLOWING TEL SENT SECSTATE FROM KINGSTON 28 DECEMBER REPEATED

QTE S E C R E T KINGSTON 4369

E.O. 11652: GDS

TAGS: EMIN, EIND, PFOR, JM

SUBJ: BAUXITE COMMISSION AND GOJ BAUXITE POLICIES

REF: A) KINGSTON 43491 B) STATE 249533

1. THE PRESENT TWO-DAY HIATUS IN THE HOLIDAY SEASON PERMITTED CONVERSATIONS WITH SOME EMBASSY CONTACTS ON THIS SUBJECT. YESTERDAY CHARGE MET WITH MYER MATALON, FIRST CHAIRMAN OF THE BAUXITE COMMISSION AND ONE OF PRIME MINISTER MANLEY'S PERSONAL ADVISORS ON QUESTIONS OF ECONOMIC POLICY; AND ALSO WITH ROBERT MASON, MEMBER OF THE BAUXITE COMMISSION AND PRIME MINISTER'S MAN FRIDAY. TODAY, CHARGE DISCUSSED BAUXITE PROBLEMS AMONG OTHER SUBJECTS WITH DOUGLAS FLETCHER, JAMAICAN AMBASSADOR IN WASHINGTON, WHO IS PRESENTLY HERE FOR LEAVE AND CONSULTATIONS. IN ALL THESE CONSULTATIONS THE ENERGY CRISIS AND ITS IMPACT ON JAMAICA WAS USED AS LEAD-IN, AND BAUXITE INDUSTRY AND ITS FUTURE CAME UP NATURALLY THEREAFTER.

2. EMBASSY IS AWARE OF STRONG INTEREST IN THE SUBJECT IN WASHINGTON, AND HENCE WE ARE REPORTING INFORMATION AND VIEWS AS THEY
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ARE DEVELOPED RATHER THAN WAITING UNTIL A COMPREHENSIVE PICTURE COULD BE PUT TOGETHER. WE LEAVE IT TO THE DEPT TO SORT OUT ANY SEEMING CONTRADICTIONS THAT MAY RESULT FROM THIS METHOD.

3. MYER MATALON, WHOSE FAMILY HAS BANKROLLED THE PNP FOR NEARLY A DECADE AND WHO RESIDED AS CHAIRMAN OF THE BAUXITE COMMISSION BECAUSE OF A POSSIBLE CONFLICT OR INTEREST DUE TO A MINORITY JAPANESE INTEREST IN A FIRM THE FAMILY CONTROLS, INFORMED THE CHARGE THAT HE HAD BEEN SUMMONED TO A MEETING WITH THE PRIME MINISTER SCHEDULED FOR THE EVENING OF JAN 3, AND THAT HE UNDERSTOOD THERE WAS A MEETING OF THE ECONOMIC COUNCIL TO CONSIDER A DRAFT REPORT OF THE BAUXITE COMMISSION SCHEDULED FOR THE NEXT DAY. MATALON SAID THAT NOWADAYS PRIME MINISTER LEANED MORE HEAVILY ON G. ARTHUR BROWN, DIRECTOR OF THE CENTRAL BANK, SIR EDGERTON RICHARDSON, AND ROBERT MASON, FOR ECONOMIC ADVISE THAN HE DID ON HIMSELF; BUT IN THIS CASE, SINCE ALL THREE WERE MEMBERS OF THE BAUXITE COMMISSION, THE PRIME MINISTER FELT HE NEEDED AN OUTSIDE OPINION OF THE COMMISSION'S REPORT. MATALON SAID HE HAD NOT YET SEEN THE REPORT, BUT HOPED TO RECEIVE A COPY WITHIN SEVERAL DAYS. IN THE COURSE OF THE CONVERSATION, HE CALLED PATRICK ROUSSEAU, CURRENT CHAIRMAN, TO VERIFY THE ABOVE AND RECEIVED A PROMISE OF A COPY OF THE REPORT WITHIN SEVERAL DAYS. MATALON THEN PROMISED TO BOOTLEG A COPY TO THE CHARGE AS SOON AS HE RECEIVED HIS OWN.

4. MATALON SAID HE HAD NOT DISCUSSED THE SUBSTANCE OR THRUST OF THE REPORT WITH ANYONE FROM THE PAST THREE WEEKS. THE LAST TIME HE HAD FIRM INFORMATION, THE REPORT FOCUSED ON TWO MAIN ISSUES;
A. JAMAICA'S GROSS TAKE IN MONEY TERMS FROM THE INDUSTRY AND
B. THE WHOLE QUESTION OF THE CONTROL. USES AND DISPOSITION OF MINING LANDS. EACH OF THESE MAIN ISSUES CONTAINED A NUMBER OF SUB-ISSUES, HOWEVER, MATALON EMPHASIZED THAT THE LAST HE KNEW THE REPORT HAD NOT RPT NOT RECOMMENDED NATIONALIZATION OR ANYTHING LIKE IT FOR THE BAUXITE MINING OPERATIONS OR THE ALUMINA REFINING OPERATIONS, INDEED, AS FAR AS HE KNEW, THE REPORT DID NOT DEAL EXTENSIVELY WITH THE QUESTION OF EQUAL PARTICIPATION IN EXISTING INVESTMENTS EXCEPT PERHAPS AS A LONG-TERM GOAL. HE DID SAY THAT AT ONE POINT, THE COMMISSION'S REPORT HAD BEEN SET UP AS AN OPTION'S PAPER (A METHOD HE REGARDED AS COWARDLY) AND HENCE MAY HAVE STATED THE OBVIOUS EXTREME OPTIONS OF NATIONALIZING THE INDUSTRY AND DOING NOTHING. AS USUAL IN SUCH PAPERS, HOWEVER, MATALON UNDERSTOOD THAT THE COMMISSION INTENDED TO RECOMMEND
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OPTION B.

5. MATALON SAID THERE WERE TWO QUESTIONS INVOLVED IN THE FINANCIAL ISSUE. ONE WAS THE PROBLEM OF THE GROSS TAKE OF THE GOVERNMENT BOTH IN GENERAL VALUE TERMS AND FOREIGN EXCHANGE TERMS. HE SAID THE GOVERNMENT WAS AT THE LIMITS OF ITS FINANCIAL CAPACITIES BOTH TO MEET ITS DAY-TO-DAY OBLIGATIONS AND TO CARRY OUT ESSENTIAL DEVELOPMENT PROJECTS. IN ADDITION, THE COSTS OF JAMAICA'S IMPORTS WERE SKYROCKETING EVEN BEFORE THE ENERGY CRISIS DUE TO WORLD INFLATION AND INCREASED PRICES FOR PETROLEUM WOULD RENDER THE BALANCE OF PAYMENTS SITUATION NEARLY IMPOSSIBLE. THE ONLY LIKELY SOURCE FOR INCREASED INCOME IN FOREIGN EXCHANGE WAS THE BAUXITE INDUSTRY.

6. IN ADDITION, MATALON SAID THERE WAS A HISTORICAL PROBLEM WHICH IN PRACTICE HAD TENDED TO WORK AGAINST JAMAICA. (DEPT CAN JUDGE WHETHER MATALON'S ACCOUNT OF THE HISTORICAL DEVELOPMENT IS ACCURATE OR NOT). HE SAID THAT BACK IN THE 1950'S WHEN BUSTAMANTE WAS CHIEF MINISTER THE INITIAL BAUXITE AGREEMENTS CALLED FOR A LOW, FLAT ROYALTY PAYMENT PER TON OF BAUXITE PRODUCED. SOMEWHAT LATER WHEN NORMAL MANLEY BECAME PREMIER THE AGREEMENTS WERE RE-NEGOTIATED TO PUT THE JAMAICAN TAKE AT A MORE REASONABLE LEVEL. AT THAT TIME THE COMPANIES ASKED IF JAMAICA COULD TAKE ITS CUT CHIEFLY AS INCOME TAXES RATHER THAN ROYALTIES SINCE THE PARENT COMPANIES COULD WRITE OFF TAXES PAID IN JAMAICA UNDER DOUBLE TAXATION TREATIES. SINCE THIS APPARENTLY WOULD NOT AFFECT JAMAICA'S TAKE FROM THE INDUSTRY AND WAS A CONVENIENCE TO THE COMPANIES, NORMAL MANLEY AGREED. IN FACT, ACCORDING TO MATALON, THE GOJ HAD SUFFERED CONSIDERABLY FROM THIS ARRANGEMENT PARTLY BECAUSE OF THE GROWTH OF ALUMINA PROCESSING IN JAMAICA WHICH MEANT LESS MATERIAL WHICH EARNED ROYALTIES AS WELL AS TAXES WAS SHIPPED ABROAD; AND PARTLY BECAUSE THE GOVT GOT NO TAXES DURING PERIODS WHEN THE INDUSTRY WAS NOT MAKING A PROFIT - WHETHER REALLY OR TECHNICALLY WAS IMMATERIAL, AND THE GOJ WAS SELDOM IN THE POSITION TO TELL WHICH. MATALON CONCLUDED THIS PORTION OF HIS ANALYSIS BY SAYING NO MATTER WHAT THE INDUSTRY SAID, IT WAS POSSIBLE TO DEDUCE A FAIR PRICE FOR A TONE OF BAUXITE OR A TON OF ALUMINA FROM THE THIGH CURRENT PRICES FOR ALUMINUM, AND THAT SUCH CALCULATION MADE IT CLEAR JAMAICA WAS NOT GETTING ITS SHARE.

7. THE FIRST SUB ISSUE UNDER THE HEADING OF LAND USE ACCORDING TO SECRET

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MATALON, WAS THE DISPOSITION OF LAND ALREADY MINED OUT. HE SAID THE COMPANIES HAD ORIGINALLY ACQUIRED THEIR LARGE TRACTS OF LAND AT FAIRLY LOW PRICES DETERMINED PRIMARILY BY THE LAND'S AGRICULTURAL UTILITY AT THE TIME AND NOT BY ITS SUB-SURFACE VALUE. AT THE TIME OF PURCHASE THE COMPANIES MAIN INTEREST HAD BEEN IN THE SUB-SURFACE VALUE BUT THEY HAD ACQUIRED THE LANDS WITH THE PERMISSION OF THE GOJ BECAUSE IT SEEMED EASIER FROM THE LEGAL POINT OF VIEW. NOW THAT THE LANDS HAD BEEN MINED OUT, THE GOJ WAS INTERESTED IN RE-ACQUIRING THEM FOR THE PURPOSE OF AGRICULTURAL DEVELOPMENT. IN THE MEANTIME, LAND VALUE HAD RISEN MARKEDLY IN JAMAICA AND, WHILE THE GOJ WAS WILLING TO BUY BACK THE LANDS, IT WANTED AND FELT IT SHOULD BE ABLE TO DO SO AT SOMETHING LIKE THE ORIGINAL PRICE PAID BY THE COMPANIES RATHER THAN THE MUCH HIGHER PRICES THAT THE COMPANIES MIGHT CLAIM WAS "FAIR MARKET VALUE" NOW.

8. THE MORE SERIOUS QUESTION HAD TO DO WITH LANDS CONTAINING TAPPED BAUXITE RESOURCES THE COMPANIES WERE NOT NOW MINING AND HAS NO INTENTION OF MINING FOR YEARS TO COME. HE SAID THERE WERE SOME PEOPLE WHO UNDERSTOOD THAT THIS WAS FAR FROM A SIMPLE PROBLEM (AT LEAST HE DID) AND THAT A NUMBER OF TECHNICAL PROBLEMS CONCERNING THE

PROPER MIX AND QUALITY OF ORE SHIPPED WERE INVOLVED. NEVERTHELESS IT DID NOT SEEM FAIR TO THE GOJ IF A COMPANY WHICH HAD RESERVES LIKELY TO LAST 130 TO 150 YEARS AT CURRENT RATES OF EXPLOITATION TO SIMPLY SIT ON A LARGE PART OF THE RESERVES WHEN THERE WERE OTHER INVESTORS INTERESTED IN COMING INTO JAMAICA TO EXPLOIT THIS. MATALON SAID THAT IF A GIVEN COMPANY'S PLANT AND EQUIPMENT WERE WRITTEN OFF IN 20 TO 25 YEARS IT SHOULD BE MORE THAN SATISFIED WITH A TOTAL RUN OF 40 - 50 YEARS AND THAT THE GOJ WAS PREPARED TO GUARANTEE THEM THAT, BUT SOME WAY HAD TO BE FOUND TO SPEED UP THE CAPITALIZATION OF JAMAICA'S PRINCIPAL RESOURCE BY INCREASING THE NET RATE OF EXPLOITATION.

9. IN HIS TELEPHONE CONVERSATION WITH ROUSSEAU IN THE COURSE OF THIS INTERVIEW (DURING WHICH MATALON DID NOT REVEAL THE PRESENCE OF THE CHARGE) HE ASKED ROUSSEAU IF THE GENERAL THRUST OF THE COMMISSION'S REPORT WAS AS THEY HAD PREVIOUSLY DISCUSSED. MATALON REPORTED THAT ROUSSEAU SAID THE THRUST OF THE REPORT WAS SUBSTANTIALLY UNCHANGED.

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QPM THE CONVERSATION WITH MASON WAS CONSIDERABLY LESS DETAILED PRIMARILY BECAUSE MASON WAS PRESSED FOR TIME, AND WAS PERSONALLY MORE INTERESTED IN THE ENERGY CRISIS AND ITS CONSEQUENCES THAN THE BAUXITE ISSUE. HOWEVER, HE CONFIRMED MATALON'S UNDERSTANDING IN A GENERAL SENSE SAYING THAT JAMAICA'S PRIMARY INTEREST WAS INCREASING ITS TAKE FROM THE INDUSTRY, AND INDICATING THE GOJ'S CONCERN WITH THE PROBLEM OF MINING OF LANDS AND INCREASING THE RATE OF EXPLOITATION. HE STATED CATEGORICALLY THAT THE GOJ HAD NO INTEREST IN NATIONALIZATION NOR WAS IT EVEN MUCH CONCERNED WITH EQUITY PARTICIPATION EXISTING INVESTMENT, THOUGH IT WANTED A PART OF THE ACTION IN THE FUTURE IN ANY INVESTMENTS IN BASIC INDUSTRIES.

11. FLETCHER EXPRESSED CONCERN THAT THE UP-COMING NEGOTIATIONS BETWEEN THE COMPANIES AND THE GOJ WOULD DISTURB THE CURRENTLY TRANQUIL STATE OF RELATIONS BETWEEN JAMAICA AND THE UNITED STATES. HE FEARED THAT GOVERNMENT'S DECISION TO BEGIN DISCUSSIONS WITH THE BAUXITE COMPANIES IN THE NEAR FUTURE MIGHT MAKE IT MORE DIFFICULT TO CARRY OUT FORTH-COMING SUGAR NEGOTIATIONS, AND HE HAD TOLD THE PRIME MINISTER SO. HOWEVER, HE FEARED THERE WAS NO WAY AROUND IT, AND SAID THAT BOTH HE AND THE CHARGE MUST DO THEIR BEST IN KEEPING RELATIONS ON AN EVEN KEEL UNTIL THE BAUXITE DISCUSSIONS WERE OVER.

12. BEGINNING THE NEW YEAR, THE CHARGE HAS MEETINGS TENTATIVELY SCHEDULED WITH ERIC BELL, MINISTER OF TRANSPORTATION, G. ARTHUR BROWN OF THE CENTRAL BANK AND ALLEN ISAACS, MINISTER OF MINING AND NATURAL RESOURCES AS WELL AS AN ADDITIONAL

MEETING WITH MATALON AFTER HIS SESSION WITH THE PRIME MINISTER. ALL OF THESE MEETINGS HAVE BEEN ARRANGED NATURALLY UNDER THE COVER OF THE ENERGY CRISIS AND, INDEED, BELL, BROWN, AND ISAACS ALL ASKED FOR APPOINTMENTS WITH THE CHARGE BEFORE HE COULD REQUEST APPOINTMENTS WITH THEM.

13. NOTHING IN THESE CONVERSATIONS ALTERS JUDGEMENTS MADE IN EMBASSY'S EARLIER MESSAGES ON THIS SUBJECT. HEWITT UNQTE RUSH
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